



## 2Q15 review: Earnings beat SFC estimate by c.8%; Maintain Buy

**2Q15 net profit ahead of SFC estimate by c.8%:** Yanbu Cement reported 2Q15 (preliminary estimate) headline net profit of SAR246m (+19% qoq, +11% yoy on 2Q14 restated numbers that included SAR20mn from contractor compensation) which is c.8% higher than SFC estimate and c.3% higher than consensus. Operational performance was stronger as well with Gross profit/EBITDA/EBIT c.8%/6%/8% higher than our forecasts. While no further details are disclosed at this stage, with first 2 months' volume for 2Q15 already disclosed and with an early Ramadan, we do not see material difference in actual vs. estimated volume. This potentially implies that the earnings beat may have come from lower cost of goods sold (management guided to lower COGS yoy) or from improved qoq pricing or a combination both, which we see as a positive, especially in the context of price discounts offered in 1Q15 (Avg. realized price of SAR229/ton in 1Q15 vs. SAR242 in 4Q14)

**Yanbu's cement volume growth was a strong c.9% yoy for the first five months of 2015:** For the first 5 months of 2015, Yanbu's consolidated cement volume was 3.29mn tons implying a c.9% yoy which is in line sector volume growth. Although the stronger growth numbers for the first 5 months of 2015 was largely a function of a lower base effect in 2014 (which was severely affected by crackdown on illegal expatriates), for full year 2015, we expect Yanbu's cement volume growth to reach a reasonable c.7% yoy, again broadly in line with sector average.

**Trades at 2015E P/E of 12.4x; Maintain Buy:** Ytd, Yanbu Cement (c.6%) outperformed Tadawul Cement (c.-2%) and it currently trades at 2015E P/E of 12.4x (KSA Cement 2015E P/E 13.4x, GCC/MEA 13.1x and EM peers 14.7x) which we find attractive considering its overall profile (c.6%+ dividend yield, strong B/S, high margin, locational advantage). Post publication of 2Q results, we maintain Buy rating with an unchanged SAR80/share TP.

**WHR project could utilize idle capacity and unlock value:** According to our estimates, the company is using its new and upgraded clinker lines (5.9mtpa), while another c.1.2mtpa (c.17% of total) of old capacity remains unutilized due to lack of fuel. However, in March 2015, the company announced that it has signed an agreement to undertake a WHR project at a cost of SAR232mn which when complete in 1Q17 would enable the company to utilize an additional c.1mtpa (out of 1.2 mtpa of unutilized capacity) of capacity. In case execution happens as planned, it could unlock value (SAR10.0/share, c.12% to our SAR80.0/share TP which does not include any value accretion from old capacity).

SAR mn	2Q15A	2Q15E	% diff	Cons*	% dev	1Q15	% qoq	2Q14	% yoy	2015E	2016E
Volume (000tons)	Na	1,980	Na	Na	Na	1,905	Na	1,781	Na	6,592	6,907
Revenues	Na	453	Na	Na	Na	437	Na	446	Na	1,648	1,727
Gross Profit	262	242	8%	Na	Na	224	17%	238	10%	894	945
EBITDA (est)**	304	286	6%	Na	Na	266	Na	283	Na	1,068	1,119
EBITDA Margin	Na	63%		Na	Na	61%		63%		65%	65%
EBIT	250	232	8%	Na	Na	212	18%	229	9%	854	905
Net Profit	246	227	8%	238	3%	207	19%	241	2%	823	876
Restated NP	246	227	8%	238	3%	207	19%	221	11%	823	876

Source: Company, Saudi Fransi Capital, \* Bloomberg consensus, \*\*estimated from available disclosure

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### Rating Summary

Recommendation	Buy
Target price (SAR)	80.0
Upside/ (downside)	23%

### Stock Details

Closing price*	SAR	65.0
Market capitalization	SAR mn	10,238
Shares outstanding	Mn	158
52-Week High	SAR	81.0
52-Week Low	SAR	56.6
Price chg. (3 months)	%	-4.6
EPS 2015E	SAR	5.23
Ticker (Reuters/ Bloomberg)	3060.SE	YNCCO AB

\*Price as of July 4, 2015

### Key Shareholding (%)

Public	59.1
GOSI	12.4
Public Investment Fund	10.0
Sulaiman A.S. Al Rajhi	7.4
Abdullah A.S. Al Rajhi	6.0
Al Rajhi Brothers	5.2

Source: Tadawul

### Key Ratios

	2015E	2016E
P/E (x)	12.4	11.7
EV/EBITDA (x)	10.9	10.4
Dividend yield (%)	6.2	6.5

Source: Company, Saudi Fransi Capital

### Stock price movement vs. TASI



Source: Tadawul

Sector Coverage

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## Yanbu Cement

KSA Cement Sector | 2Q 2015 Preliminary Results | July 5, 2015

### Recommendation Framework

**BUY:** The analyst recommends a BUY when our fair value estimate is at least 10% higher than the current share price.

**HOLD:** The analyst recommends a HOLD when our fair value estimate ranges within  $\pm 10\%$  of the current share price.

**SELL:** The analyst recommends a SELL when our fair value estimate is lower by more than 10% from the current share price.

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